

CHAPTER IV

REGIONALS/COMMUTERS

For purposes of the Federal Aviation Administration (FAA) forecasts, air carriers that are included as part of the regional/commuter airline industry meet three criteria. First, a regional/commuter carrier flies a majority of their available seat miles (ASMs) using aircraft having 70 seats or less. Secondly, the service provided by these carriers is primarily regularly scheduled passenger service. Thirdly, the primary mission of the carrier is to provide connecting service for its code-share partners.

During 2003, 75 reporting regional/commuter airlines met this definition. Monthly traffic data for 10 of these carriers was compiled from the Department of Transportation's (DOT) Form 41 and T-100 filings. Traffic for the remaining 65 carriers was compiled solely from T-100 filings. Prior to fiscal year 2003, 10 regionals/commuters¹ reported on DOT Form 41 while 65 smaller certificated and commuter carriers filed traffic data on Form 298C. These 65 carriers continue to file financial data using Form 298C.

¹Air Wisconsin, American Eagle, Atlantic Southeast, Chicago Express, Comair, Executive, ExpressJet (formerly Continental Express), Horizon, Mesaba, and Trans States.

REVIEW OF 2003²

The results for the regional/commuter industry for 2003 reflect the continuation of a trend that started with the events of September 11th and have been drawn out by the Iraq War and Severe Acute Respiratory Syndrome (SARS). These “shocks” to the system have led to the large air carriers posting losses in passengers for 3 years running. The losses often reflect diversions in traffic to the regional/commuter carriers. These carriers recorded double-digit growth in both capacity and traffic for the second time in as many years. History has demonstrated that the regional/commuter industry endures periods of uncertainty better than the larger air carriers. During the oil embargo of 1973, the recession in 1990, and the Gulf War in 1991, the regional/commuter industry consistently outperformed the larger air carriers. It appears that history will again repeat itself, in view of the fact that the regional/commuter industry seems to be weathering the negative impacts of the Iraq War and SARS better than the larger air carriers.

²All specified years in this chapter are fiscal year (October 1 through September 30) unless designated otherwise.

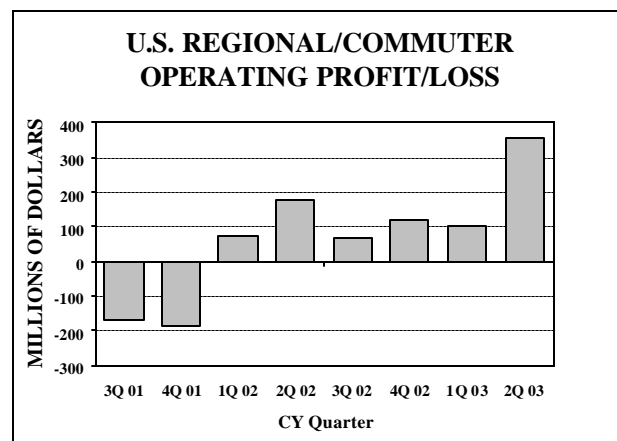
In order to survive during downturns in the demand for aviation services, large air carriers shed capacity to reduce costs. Code-sharing agreements (or equity ownership of one partner in another) allow large air carriers to get feeder traffic from the regionals/commuters on routes that cannot support the use of larger aircraft. Regionals traditionally responded to large carrier cuts in capacity by providing aircraft sizes that more closely match demand. In past periods of reduced demand, regionals primarily acquired thin, short-haul markets. While this trend continued during 2003, the regionals also expanded their reach by taking over many medium- to longer-haul routes as well as offering point-to-point service in new markets.

According to the Official Airline Guide (OAG) regional/commuter carriers flew 466 non-stop city pairs during calendar year 2003 that had not been served by either regionals or large air carriers since at least 2001. This trend is expected to continue as the number of 50-, 70-, and 90-seat regional jet aircraft continue to swell the fleet. Delivery of these type aircraft will result in the regional/commuter fleet almost doubling in size between 2002 and 2006.

FINANCIAL RESULTS

For the 12 months ended June 2003, the regional/commuter industry posted an operating profit of \$644.7 million. The majority of the profits occurred during the April-June quarter where the carriers posted operating profits totaling \$357.8 million, nearly triple the operating profits of \$126.8 million posted for all of fiscal year 2002.

The regionals/commuters have reported operating profits for six consecutive quarters (January 2002 through June 2003). Prior to January 2002, the regionals/commuters reported four straight quarters of operating losses. Preliminary data indicates that the third and fourth quarters of CY 2003 are likely to be profitable as well.



Operating revenues for the 12 months ended June 2003 were \$10.0 billion, a 15.4 percent increase over the previous year. Operating expenses during the same period were \$9.4 billion, an increase of 6.7 percent over the previous year.

Nominal yield for the industry during the 12-month period ending March 2003 was 27.1 cents. This is a decline of 3.6 percent from a yield of 28.4 cents during the previous 12-month period.

SCHEDULED CAPACITY AND TRAFFIC

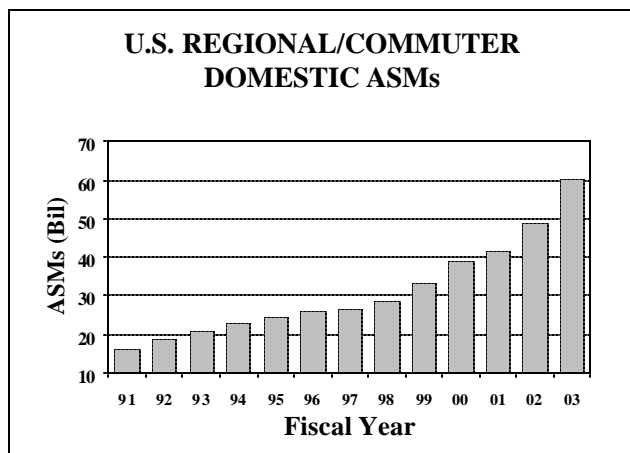
During 2003, system available seat miles (ASMs) increased 24.0 percent to 62.2 billion, while RPMs rose 31.0 percent to 40.2 billion. This resulted in the system load factor increasing by 3.4 points to 64.7 percent. System regional/commuter passengers were 108.7 million in 2003, 18.9 percent over 2002 levels. These carriers accounted for 18.0 percent of domestic commercial enplanements in 2003, up from 11.9 percent in 2000 and 8.6 percent in 1991.

Domestic Capacity and Traffic

The domestic regional/commuter database includes activity for all U.S. regionals/commuters operating in the 48 contiguous states, Alaska, Hawaii, Puerto Rico, and the U.S. Virgin Islands. It also includes transborder traffic into Canada.

Available Seat Miles

Domestic scheduled U.S. regional/commuter ASMs are up 54.8 percent over the last 3 years, and up 24.0 percent in 2003 alone. During the 9-year period prior to 2001, domestic ASMs increased at an average annual rate of 10.3 percent.



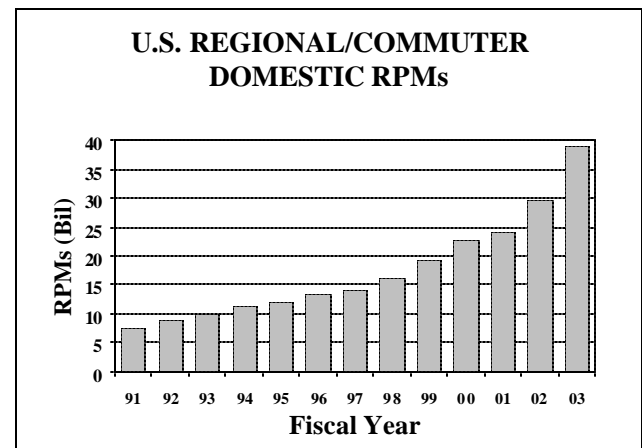
The large increase in domestic ASMs during 2003 is due, in large part, to the transfer of mainline carrier routes to their regional affiliates and code-share partners. This progression of route transfers may be partially attributed to two unanticipated events that postponed the recovery of demand for large air carrier transportation services—the Iraq War and SARS. After posting strong gains in traffic during the first 4 months of fiscal 2003, mainline carriers were forced to implement capacity cuts in response to weakening demand resulting from the initiation of military activity in Iraq. The regionals/commuters were again the beneficiary of these schedule reductions, acquiring additional route transfers from their larger code-share partners. As

such, the regionals/commuters continued to post strong traffic growth during a period of relatively weak demand, demonstrating once again that downturns in the large air carrier industry are often met by an upswing in the results for the regionals/commuters.

Revenue Passenger Miles

Domestic RPMs are up 71.4 percent over the last 3 years, and up 31.3 percent in 2003, totaling just over 39.1 billion. This compares to an average annual increase of 16.1 percent during the 9 years prior to 2001. The large growth in RPMs results from the same factors as ASM growth, but is also partially due to the number of larger (50-70-90 seat) regional jet aircraft that have entered the fleet and the longer-haul routes that are being served by these aircraft.

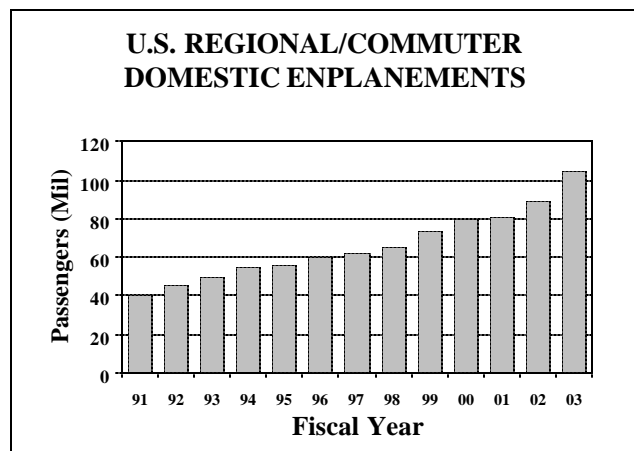
The higher growth in RPMs relative to ASMs (31.3 percent vs. 24.0 percent) increased the domestic load factor 3.6 points to 64.9 percent in 2003. Since 1991, the regional/commuter load factor has increased 18.2 points, from 46.7 percent to the current all-time record high.



Passenger Enplanements

From 1991-2000, domestic enplanements increased at an average annual rate of 9.0 percent.

In 2003, domestic enplanements increased at over twice this rate--18.6 percent--to 105.1 million. Regional/commuter carriers accounted for 18.0 percent of total domestic enplanements in 2003, up from its share of 12.4 percent in 2000.



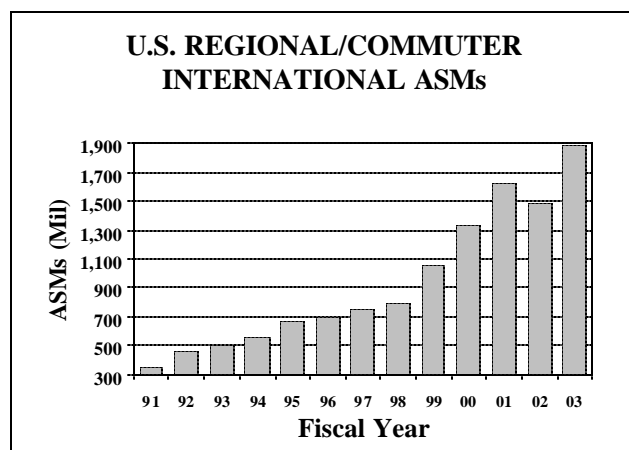
The slower growth in passengers relative to RPMs for 2003 (18.6 versus 31.3 percent) is largely due to the fact that the average passenger trip length increased 35.9 miles. This, in part, reflects the longer stage length of the routes being transferred from the larger code-sharing partners, as well as the addition of point-to-point routes that had not been previously served by regionals/commuters or mainline carriers. Since 2000, the average passenger trip length has increased 85.8 miles. The passenger trip length has almost doubled since 1991, increasing from 185.9 miles to the current 372.3 miles.

International Capacity and Traffic

The international regional/commuter database includes activity between the United States or its territories, and the Caribbean and Mexico.

Available Seat Miles

Regional/commuter international capacity accounts for only 3.0 percent of the total capacity flown by these carriers in 2003. For the year, scheduled international ASMs totaled 1.9 billion, an increase of 26.8 percent over 2002. This large increase comes off of a year where capacity cutbacks in the Caribbean by American Eagle and Executive Airlines were implemented in order to comply with scope clauses that limited the amount of flying that could be done on the American code. Since 2000, the international ASMs flown by the regional/commuter carriers is up 41.4 percent. During the 9 years prior to 2001, the average annual growth in international ASMs was 15.9 percent. The OAG indicates that almost 60.0 percent of the regional/commuter international ASMs are flown to Caribbean destinations.

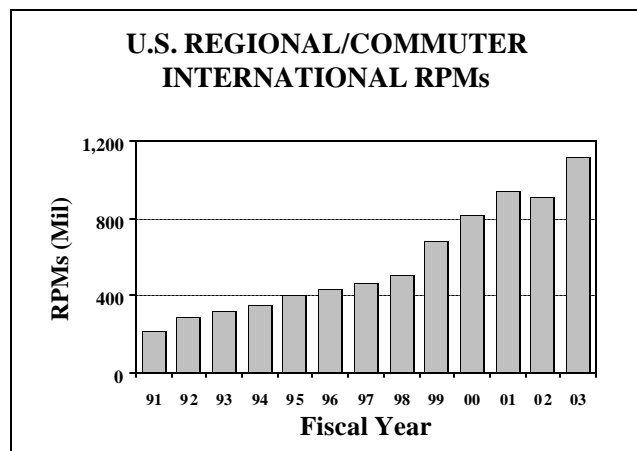


Revenue Passenger Miles

International RPMs for 2003 were up 23.1 percent to 1.1 billion. This compares to an average annual growth rate of 16.3 percent for the period 1991 through 2000. RPMs in the regional/commuter market have increased 37.8 percent since 2000.

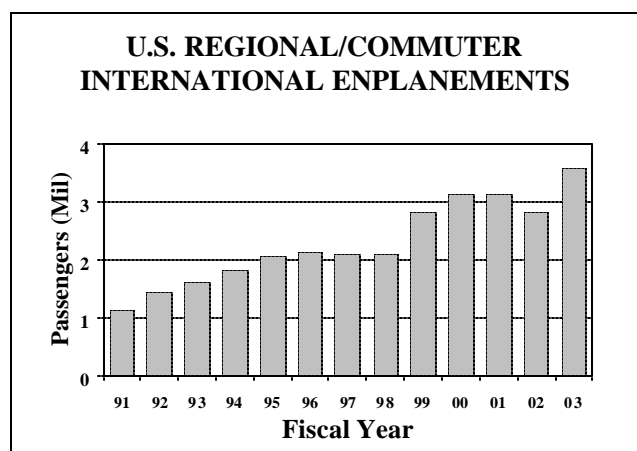
The load factor in 2003 was 59.3 percent, down from a load factor of 60.8 percent posted in

2000. The highest load factor in the 9 years prior to 2001 occurred in 1997 (64.7 percent), and the lowest load factor occurred in 1995 (59.2 percent).



Passenger Enplanements

International enplanements totaled 3.6 million in 2003, up 26.9 percent from the previous year. The average annual growth rate in international regional/commuter passengers for the period 1991-2000 was 11.2 percent. Between the end of 2000 and 2003, international passenger enplanements increased 15.3 percent.



THE ADVANCE OF THE REGIONAL/COMMUTER INDUSTRY

The fundamental character of the regional/commuter industry has changed significantly since the mid-1980s. These changes include the relative size and sophistication of airline operations, the carriers involved (especially the dominant industry operators), the aircraft fleet mix, and the industry's relationship with the large commercial air carriers.

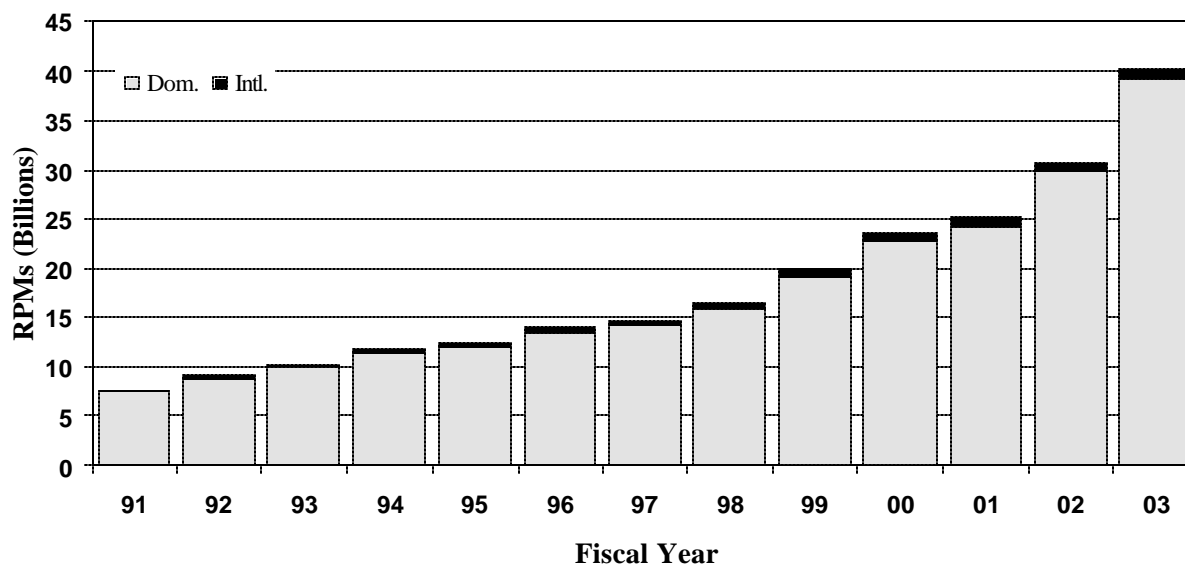
While the overall number of regional/commuter airlines declined by over two-thirds between 1981 and 2003 (from 250 carriers to 75), two carriers started reporting traffic to the DOT for the first time during the year--Arizona Express and Caribbean Sun Airlines.³ It remains to be seen if the coming years will produce more start-up regional/commuter carriers that can fill the void left by the larger regional carriers as they abandoned shorter-haul markets in pursuit of longer-haul ones.

The large decline in the number of carriers over the past 2 decades was the result of several factors. First, the dramatic growth in the number of code-sharing agreements with the major air carriers (see Table IV-1 for a current listing of code-sharing agreements) has made it difficult for carriers without such agreements to effectively compete. Secondly, the air carrier acquisitions of or purchases of equity interest in their regional/commuter code-sharing partners has led to a reduction in the number of independent operators. Also, it is believed that the expense required for some regional/commuter carriers to comply with the "one level

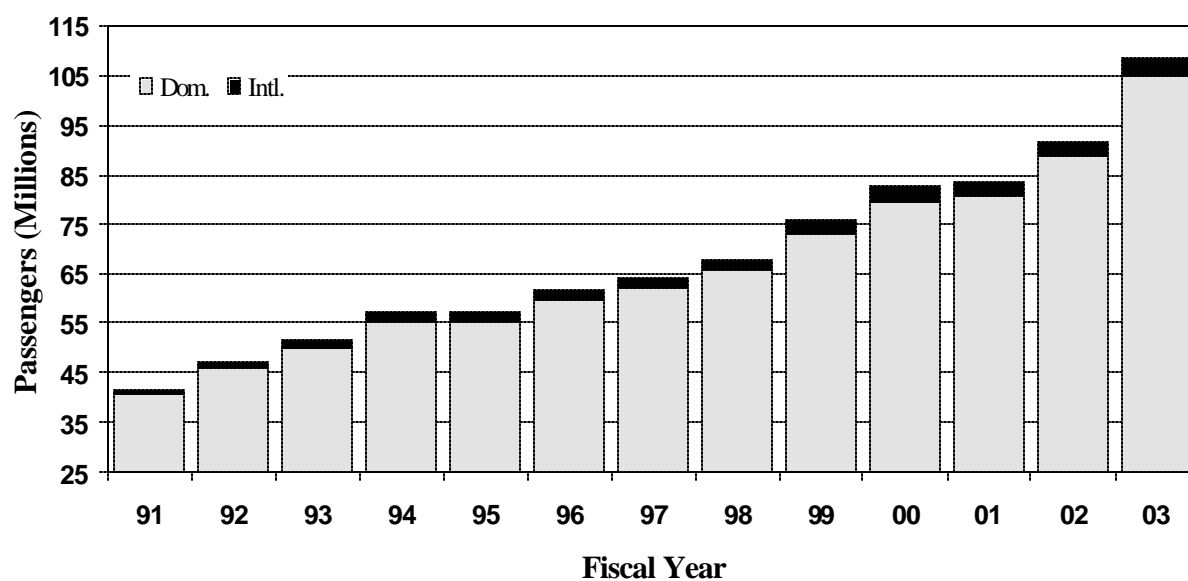
³Arizona Express currently flies from Phoenix, Arizona, to Show Low and Sierra Vista, Arizona. Caribbean Sun Airlines is based in San Juan, Puerto Rico, and flies to Antigua, St. Maarten, St. Kitts, and Tortolla.

U.S. REGIONALS/COMMUTERS TRAFFIC TRENDS

Scheduled Revenue Passenger Miles



Scheduled Passenger Enplanements



of safety” commuter rule may have caused some regional/commuter carriers to cease operations.

The regional carriers consolidation phase continued during the past year. In October of 2002, Mesaba’s holding company, MAIR Holdings Inc., acquired Montana-based Big Sky Airlines. In December of 2003 it was announced that the pilots union for Comair and Atlantic Southeast had requested Delta to merge the two subsidiaries. The unions suggest that combining the two carriers would allow Delta to eliminate duplicate positions, resulting in cost savings and improved efficiencies.

Corresponding to the shrinking number of regional/commuter carriers in the industry is the increasing share of traffic being flown by the dominant industry carriers. In 1981, the top five regional/commuter carriers accounted for only 20 percent of the passengers flown. By 1991, this percentage increased to 30 percent. In 2003 the top five carriers were responsible for flying over 49 percent of the passengers, a 3.0 percentage point increase over 2002.

Today a large number of regionals are owned, totally or in part, by their larger code-sharing partners, and still others are owned by other regionals. In 2003, 12 regionals were owned totally or in part by 8 of the larger commercial air carriers, and 2 others were owned by 2 other regionals. As well, in November 2003, Northwest Airlines spun off its subsidiary, Pinnacle Airlines.

A better picture of the present composition of the regional/commuter airline industry is presented in Table IV-3. This table lists the top 20 corporate structures and their percentage share of 2003 industry enplanements, and more accurately reflects the level of industry consolidation and integration with the larger air carriers. In 2003, the top 5 corporate groups accounted for 59.0 percent of industry enplanements, the top 10 for 84.4 percent, and the top 20 for 98.1 percent.

The introduction of the regional jet into the dynamics of the demand for air transportation services has significantly expanded the role and market presence of the regional/commuter industry. The success operating carriers have experienced in markets where the aircraft is deployed has led to its operators moving beyond the boundaries of traditional regional/commuter markets. The regional jets’ range and speed has opened up new opportunities, allowing regional/commuter carriers to serve longer-haul markets and to by-pass congested hub airports by providing point-to-point service.

Moving forward, it appears that there is a blending of the regional/commuter and the mainline carrier fleets taking place. This is due largely to the relaxation of scope clauses (e.g. US Airways agreement to purchase 170 50- and 70-seat regional jets with options for 380 more aircraft to be flown by their subsidiaries and code-share partners), and business decisions by some larger air carriers to operate “smaller” jet aircraft (JetBlue’s agreement to purchase 100 of the 100-seat Embraer 190s, with options for 100 more).

Prior to the events of September 11th, scope clauses prevented many of the regional/commuter carriers from operating anything larger than the 50-seat regional jet, thus this size of aircraft was poised to be the mainstay of the fleet. However, with the relaxation of scope, the path was laid for more and larger regional jet aircraft to enter the fleet. OAG analysis indicates that three carriers began operating the 70-seat regional jet in 2002 (American Eagle, Mesa, and Atlantic Southeast). In 2003 an additional four carriers started operating the larger jet (Horizon, Freedom Air, Comair, and Air Wisconsin). Also in 2003, Freedom Air was the first (and only) regional/commuter carrier to operate a 90-seat regional jet. It is anticipated that most of the regional jets entering the fleet over the next few years will be in the 70-seat range.

TABLE IV-1

**AIR CARRIER/COMMUTER AIRLINES
CODE-SHARING AGREEMENTS**

AS OF DECEMBER 2003

Air Carrier/Program Name	Designated Commuter Carrier	Primary Hubs Served
1. AirTran Airways	Air Wisconsin	Atlanta
2. Alaska Airlines	Big Sky ERA Aviation Horizon Air Peninsula Airways	Seattle Anchorage Portland, Boise, Spokane, Eugene Anchorage
3. Aloha Airlines	Aloha Island Air	Honolulu
4. America West Express	Air Midwest Big Sky Airlines Freedom Airlines Mesa Airlines	Phoenix Billings Phoenix Phoenix
5. American Airlines	American Eagle Executive	Dallas/Fort Worth, Boston, Los Angeles, La Guardia Miami, San Juan
6. American Connection	Chautauqua Trans States	St. Louis St. Louis
7. American Trans Air	Chicago Express	Chicago Midway
8. Continental Airlines	ExpressJet	Cleveland, Houston Intercontinental, New York/Newark,
9. Continental Connection	Cape Air CommutAir Gulfstream International SkyWest	Tampa Albany, Cleveland Fort Lauderdale, Miami Houston Intercontinental

TABLE IV-1 (Continued)

**AIR CARRIER/COMMUTER AIRLINES
CODE-SHARING AGREEMENTS**

AS OF DECEMBER 2003

Air Carrier/Program Name	Designated Commuter Carrier	Primary Hubs Served
10. Delta Connection	American Eagle	Los Angeles
	Atlantic Coast Airlines	Boston, Cincinnati
	Atlantic Southeast Airlines	Atlanta, Dallas/Fort Worth
	Chautauqua Airlines	Dallas/Fort Worth, Columbus
	Comair	Cincinnati, Atlanta, New York/LGA
	SkyWest	Salt Lake City, Dallas/Fort Worth
11. Frontier Airlines	Great Lakes Aviation	Denver
	Mesa Airlines	Denver
12. Midwest Express	Air Midwest	Kansas City
	American Eagle	Boston, Dallas/Fort Worth Los Angeles
	Skyway Airlines	Milwaukee, Kansas City
13. Northwest Airlines	American Eagle	Los Angeles
	Big Sky Airlines	Billings, Bismarck
	Continental Express	Cleveland, Houston Intercontinental New York/Newark
	Gulfstream International	Key West
	Horizon Airlines	Portland, Seattle
	Mesaba	Detroit Metro, Minneapolis/St. Paul, Memphis

TABLE IV-1 (Continued)

**AIR CARRIER/COMMUTER AIRLINES
CODE-SHARING AGREEMENTS**

AS OF DECEMBER 2003

Air Carrier/Program Name	Air Carrier/Program Name	Air Carrier/Program Name
13. Northwest Airlines (con't)	Pinnacle Airlines	Detroit Metro, Minneapolis/St. Paul, Memphis
14. United Express	Air Wisconsin	Washington Dulles, Chicago O'Hare
	Atlantic Coast Airlines	Washington Dulles, Chicago O'Hare
	Great Lakes Aviation	Denver
	Gulfstream International	Miami
	Mesa Airlines	Denver
	SkyWest Airlines	Denver, Los Angeles, San Francisco
15. US Airways Express	Air Midwest	Charlotte, Kansas City, Pittsburgh, Tampa
	Allegheny Airlines	New York/La Guardia, Philadelphia, Pittsburgh
	Chautauqua	New York/La Guardia, Philadelphia, Pittsburgh
	Colgan Air, Inc.	New York/La Guardia, Boston, Pittsburgh
	Mesa	Charlotte, Philadelphia
	Piedmont	Charlotte, Philadelphia, Washington National
	PSA	Pittsburgh, Philadelphia, Washington
	Shuttle America	Pittsburgh
	Trans States	Pittsburgh

TABLE IV-2

**TOP 50
REGIONAL/COMMUTER AIRLINES
RANKED BY TOTAL PASSENGER ENPLANEMENTS**

FISCAL YEAR 2003

Carrier	Enplanements	Carrier	Enplanements
1. American Eagle	12,360,998	26. Freedom Air	331,733
2. SkyWest Aviation	10,842,059	27. ERA Aviation	269,024
3. ExpressJet	10,820,263	28. CommutAir	241,280
4. Comair	10,264,165	29. Corporate Express	181,628
5. Atlantic Southeast	9,125,218	30. Seaborne Aviation	157,284
6. Atlantic Coast	8,373,145	31. Eagle Canyon	157,035
7. Mesaba	5,658,256	32. Peninsula Airways	141,558
8. Air Wisconsin	5,347,890	33. Big Sky	134,928
9. Horizon	4,866,086	34. Hageland Aviation	117,701
10. Mesa	4,847,207	35. Aloha Island Air	97,448
11. Chautauqua	4,063,078	36. Pacific Island Aviation	66,044
12. Pinnacle	3,942,356	37. Frontier Flying Service	62,803
13. Executive	2,838,937	38. Chalks International	60,584
14. Piedmont	2,656,964	39. Grant Aviation	60,348
15. Trans States	2,455,465	40. Great Plains	54,806
16. Allegheny	2,070,577	41. Bering Air	51,594
17. PSA	1,179,994	42. Warbelow's Air Venture	32,495
18. Chicago Express	1,113,787	43. Wings of Alaska	29,862
19. Cape Air	786,476	44. Promech Air	25,498
20. Air Midwest	679,760	45. Air Sunshine	21,524
21. Skyway/Astral	620,511	46. Vintage Props and Jets	20,259
22. Gulfstream International	601,555	47. Caribbean Sun Airlines I	20,097
23. Great Lakes Aviation	564,492	48. Wright Air Service	16,911
24. Colgan Air	480,366	49. Cape Smythe	16,409
25. Shuttle America	457,730	50. Boston/Maine Airways	15,695
Top 25: % of Total Regional/ Commuter Enplanements	97.7%	Top 50: % of Total Regional/ Commuter Enplanements	99.9%

Source: DOT Form 41 and FAA Estimates

TABLE IV-3
TOP 20 CORPORATE STRUCTURES
FISCAL YEAR 2003

Carrier/ Carrier Group	Industry Enplanements (%)	Carrier/ Carrier Group	Industry Enplanements (%)
1. Delta	17.7	11. Chautauqua Airlines	3.7
2. American Eagle	13.9	12. Pinnacle	3.6
3. SkyWest	9.9	13. Trans States	2.2
4. ExpressJet	9.9	14. Chicago Express	1.0
5. Atlantic Coast	7.6	15. Cape Air	0.7
Top 5: % of Total Regional/ Commuter Enplanements	59.0%	Top 15: % of Total Regional/ Commuter Enplanements	95.6%
6. US Airways Express	5.4	16. Skyway/Astral	0.6
7. Mesaba	5.3	17. Gulfstream International	0.5
8. Mesa Air Group	5.3	18. Great Lakes	0.5
9. Air Wisconsin	4.9	19. Colgan Air	0.4
10. Horizon	4.4	20. Shuttle America	0.4
Top 10: % of Total Regional/ Commuter Enplanements	84.4%	Top 20: % of Total Regional/ Commuter Enplanements	98.1%

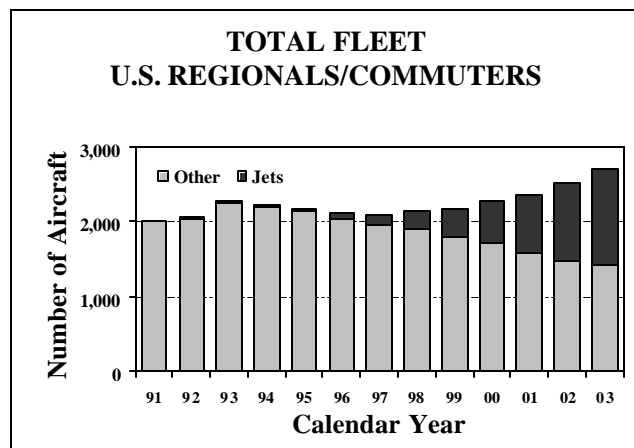
Source: DOT Form 41 and FAA Estimates

In last year's forecast document, the FAA analyzed 12 years (1991-2002) of schedules from the OAG to assess the growing impact of regional jets on the industry. This analysis has been updated to include data for 2003.

Fleet Composition

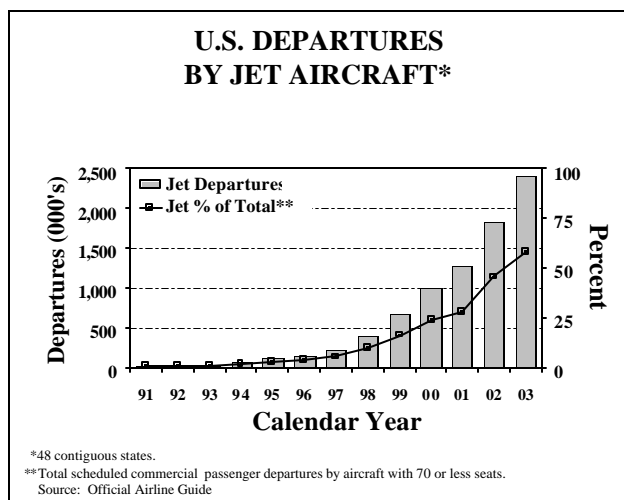
In 1991, three regional/commuter air carriers operated a total of 20 jets, accounting for 1.0 percent of the total fleet and 4.0 percent of seats offered for sale. It was not until 1997 that the introduction of the regional jets started to

accelerate, increasing by over 100 aircraft annually (286 aircraft in 2003) over the next 6 years.

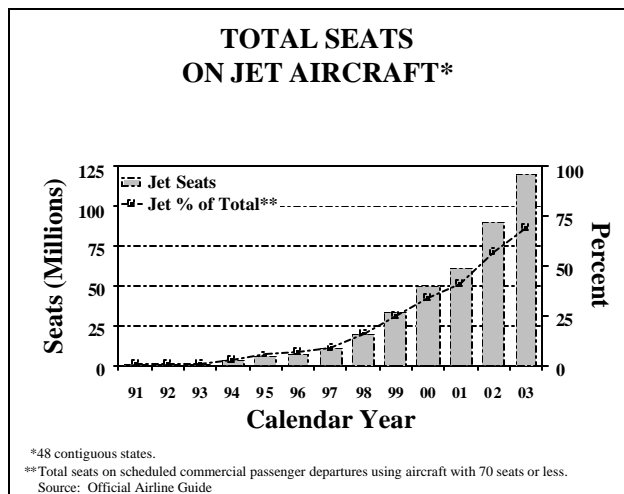


Activity and Operational Measures

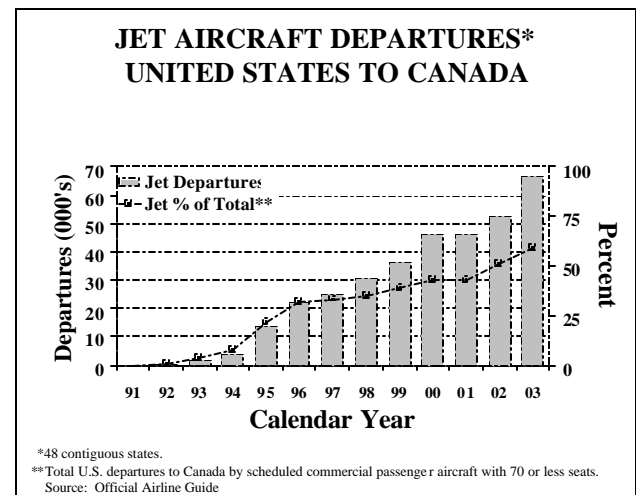
The number of scheduled regional/commuter jet departures in the 48 contiguous states has grown from just under 9,100 in 1991 to over 2.4 million in 2003. In 2003, jet departures by regionals/commuters accounted for 57.8 percent of the industry departures, up from just 0.2 percent in 1991. In 2003 alone, regional jet departures increased 31.9 percent from 1.8 million to 2.4 million.



Regional jets accounted for 69.3 percent of regional/commuter seats in 2003. Seat capacity provided by these type of aircraft increased 34.5 percent from 2002, for an additional 31.1 million seats.

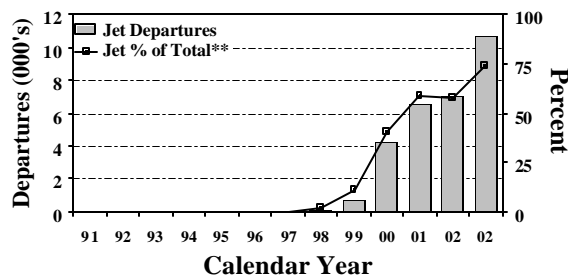


Jet aircraft have also penetrated the transborder markets. In 1992, less than 1.0 percent of all regional/commuter flights between the United States and Canada were flown with jet aircraft. In 2003, jets flew 59.3 percent of regional/commuter flights between the two countries. These 67,041 flights provided 3.3 million seats, over 69.5 percent of regional/commuter seat capacity between the United States and Canada. Since 2002, jet flights and seats in this market increased 27.0 and 29.1 percent respectively.



The newest international market for regional/commuter aircraft departing from the United States is Mexico. In 2003, only 6 years after the introduction of jet service, regional/commuter carriers flew over 10,660 jet flights between Mexico and the United States, 73.4 percent of all regional/commuter flights in these markets. In addition, during 2003 jet seat capacity increased by just over 185,500 seats. By year-end, 82.6 percent of regional/commuter seat capacity between the United States and Mexico was flown by jet aircraft.

JET AIRCRAFT DEPARTURES* UNITED STATES TO MEXICO

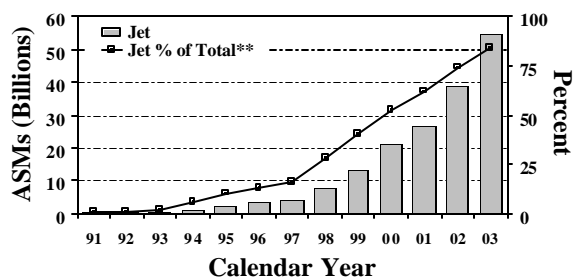


*48 contiguous states.

**Total U.S. departures to Mexico by scheduled commercial passenger aircraft with 70 or less seats.
Source: Official Airline Guide

With their higher cruise speed and longer range capabilities, the ASMs flown by jet aircraft are also increasing rapidly, from just 0.9 percent of total industry ASMs flown in 1991 to 83.9 percent in 2003. Between 2002 and 2003, the ASMs flown by jet aircraft increased 40.4 percent.

AVAILABLE SEAT MILES FLOWN BY JET AIRCRAFT*

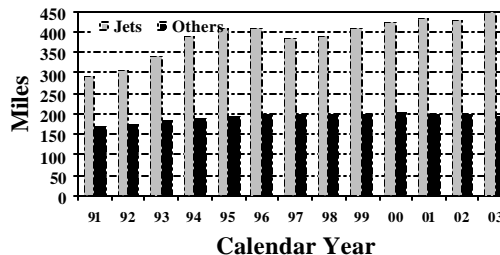


*48 contiguous states

**Miles flown by scheduled commercial passenger aircraft with 70 or less seats
Source: Official Airline Guide

The growth in ASMs flown is indicative of the fact that regional jets are being operated on routes significantly longer, on average, than “traditional” regional/commuter routes. Between 1994 and 1999, following the introduction of the 50-seat regional jet, the average stage length flown by regional jets hovered around 400 miles. Between 2000 and 2003, the stage length has steadily increased to 447.9 miles. By comparison, the average stage length for all other regional/commuter aircraft has remained at around 200 miles.

AVERAGE STAGE LENGTH REGIONAL/COMMUTER DEPARTURES*



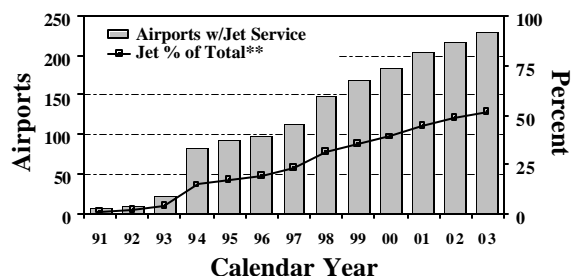
*Departures from the 48 contiguous U.S. on scheduled commercial passenger aircraft with 70 or less seats.
Source: Official Airline Guide

Markets/Routes Served

Regional jets provide the flying public with significantly more travel options to choose from in making their travel plans. As Bombardier and Embraer regional jets continue to enter the fleet, more small- and medium-sized hubs are receiving jet service. Consequently, the number of airports and city-pairs benefiting from jet service are at an all-time high.

The number of U.S. airports receiving regional/commuter jet service increased from only 6 in 1991 to 231 in 2003. During 2003, the number of U.S. airports receiving regional jet service increased by 13 airports. In 2003, 51.7 percent of the airports served by regional/commuter carriers received jet service—up from 1.1 percent of the airports in 1991. At present, only two states--Hawaii and Alaska—are not served by regional jets.

U.S. AIRPORTS SERVED BY JET AIRCRAFT*



*48 contiguous states.

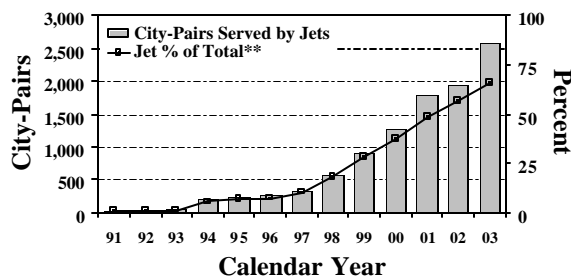
**Total airports with scheduled commercial passenger service by aircraft with 70 or less seats.

Source: Official Airline Guide

The number of airports in Canada and Mexico served by regional jets continued to increase in 2003. In 2003, regional/commuter jet aircraft flew to 11 Canadian airports from the United States, up from just 2 airports in 1992. In Mexico, there are 19 airports with regional/commuter service; up from only one airport in 1998.

The number of city-pairs originating from airports in the U.S. has also increased significantly. Regional/commuter city-pairs with jet service grew from 10 in 1991 to 2,574 in 2003. In 2003 alone, an additional 632 city-pairs received regional/commuter jet service, raising the percentage of regional/commuter city-pairs with jet service to over 65.9 percent.

CITY-PAIRS SERVED BY JET AIRCRAFT



*48 contiguous states.

**Total city-pairs with scheduled commercial passenger service by aircraft with 70 seats or less.

Source: Official Airline Guide

Of the 2,574 city-pairs served by regional jets in 2003, 92 were flown in transborder service.

Between the United States and Canada, regional jets served 68 of 112 regional/commuter city-pairs. Between the United States and Mexico, 24 of the 32 city-pairs were served by regional jets.

Top 10 Regional/Commuter Airports

The top ranked airport in 2003 with respect to regional jet departures was Cincinnati/Northern Kentucky International (CVG). Scheduled jet departures at CVG totaled 158,762 in 2003, 97.0 percent of all regional/commuter departures (jet and turboprop) and 71.5 percent of all commercial departures (large air carrier and regional/commuter) at the airport.

Chicago O'Hare International (ORD), ranked second to CVG in 2003, with a total of 156,580 regional jet departures. Atlanta Hartsfield (108,353), Dallas/Fort Worth (108,184), and Houston Intercontinental (82,377) round out the list of the top five airports with scheduled jet service from regional/commuter carriers. Detroit Metro Wayne increased from 27,731 scheduled regional jet departures in 2002 to 47,938 departures in 2003, moving up from its ranking of 17th in 2002.

Regional jet departures at the top 10 ranked regional/commuter airports accounted for 84.2 percent of total regional/commuter departures and 34.7 percent of total commercial departures at these 10 airports. In the 48 contiguous states, commuter jet departures accounted for 57.8 percent of all regional/commuter departures and 25.3 percent of all commercial departures during 2003.

TABLE IV-4

TOP 10 AIRPORTS

RANKED BY COMMUTER JET DEPARTURES

CALENDAR YEAR 2003

ID	Airport	Departures			Regional Jet Departures as a % of Total Commuter Departures	Regional Jet Departures as a % of Total Commercial Departures
		Commuter*		Commercial*		
		Jet	Total	Total		
1. CVG	Cincin./N. Kentucky. Int'l.	158,762	163,651	222,195	97.0	71.5
2. ORD	Chicago O'Hare Int'l.	156,580	156,919	448,582	99.8	34.9
3. ATL	William B. Hartsfield Int'l.	108,353	133,915	433,984	80.9	25.0
4. DFW	Dallas/Fort Worth Int'l.	108,184	147,085	368,159	73.6	29.4
5. IAH	Houston Intercontinental	82,377	86,540	219,506	95.2	37.5
6. EWR	Newark Int'l.	64,482	65,527	186,505	98.4	34.6
7. CLE	Cleveland-Hopkins Int'l.	60,437	73,216	110,210	82.5	54.8
8. LGA	New York La Guardia	54,032	84,843	187,649	63.7	28.8
9. BOS	Boston Logan Int'l.	51,821	73,217	166,871	70.8	31.1
10. DTW	Detroit Metro Wayne	47,938	76,004	233,382	63.1	20.5
	Departures – Top 10	892,966	1,060,917	2,577,043	84.2	34.7
	Total Departures – 48 U.S.	2,407,928	4,169,564	9,522,098	57.8	25.3

*Scheduled Commercial Passenger Aircraft with seat size ≥ 3 and < 71

**Scheduled Commercial Passenger Aircraft with seat size ≥ 3

Source: Official Airline Guide published November 2003

Industry Impact

The past several years have witnessed the rapid development of routes utilizing regional jets, much to the increasing satisfaction of most of the traveling public. However, even with the high traffic growth experienced by the regional/commuter industry, there is still an erosion in the number of city-pairs receiving non-stop regional/commuter service in the shorter-haul markets.

The decrease in service in shorter-haul markets may be the result of two factors. First, in 1995 an initiative was enacted to bring all air carriers operating aircraft with a capacity between 10 and 30 seats under the same operating rules as those

carriers with large aircraft. The initiative called for “one level of safety” and placed stringent safety standards on regional/commuter carriers. The additional costs required to meet the increased safety standards made some smaller aircraft uneconomical to operate. In March of 1997, the initiative became law and is now known as the “commuter rule.”

One year after the implementation of the commuter rule (1998), the number of city pairs served by the regional/commuter carriers fell to its lowest level of the decade. Although the trend reversed in 1999 as more regional jets entered the fleet, the number of short-haul markets served (200 miles or less) continues to decline. According to the OAG, in 2003, 336 city-pairs in the 0-200 mile range, and

184 city pairs in the 200-500 mile range lost nonstop regional/commuter service (air carrier service is not offered either). While there have been additional new city-pairs offered in these ranges (152 pairs in the 0-200 mile range, and 1,262 pairs in the 200-500 mile range), the overall impact is a net loss of 184 and 58 city-pairs, respectively.

The second factor affecting service in short-haul markets is that it is more economical for regional jet aircraft to operate in denser passenger markets. As more regional jet aircraft enter the fleet, the average stage length will rise as carriers pursue markets that are more suitable for the regional jet aircraft to operate in.

Again, analysis of the OAG for the years 2001 and 2003 demonstrates this effect. In 2001, the regionals were flying 612 city-pairs with mileage over 500 miles, with 308 of these pairs served exclusively by regionals/commuters. By 2003, the number of city-pairs served by regional/commuter carriers grew two-fold--to 1,136 city pairs--with 612 city-pairs served exclusively by regionals/commuters. Also, it is interesting to note that 188 of these markets were recipients of point-to-point service that had not previously been served by either regionals/commuters or large air carriers. (See Table IV-5 for a comparison of city-pairs served by regional/commuter and large air carriers.)

Presently, there are 5,736 city-pairs being flown non-stop in the 48 contiguous states by regionals/commuters and/or large air carriers, 78 more pairs than were available in 2001. Of these 5,736 city-pairs, 812 were new (not available since at least 2001). Additionally, 796 city-pairs have lost non-stop service altogether since 2001.

The changing mix of the regional/commuter aircraft fleet is also affecting service on longer-haul routes. From 2001 to 2003 the number of city-pairs being flown in the range above 1,000 miles increased dramatically. In 2001, only 20 city-pairs posted

stage lengths greater than 1000 miles---the longest distance measuring 1,148 miles (Des Moines/Phoenix). By 2003, there were an additional 100 city-pairs flying beyond 1,000 miles with the top distance registering 1,468 miles (Dallas/Fort Worth/Oakland). It is anticipated that as more of the larger regional jets enter the fleet, stage lengths will continue to rise.

To corroborate the major shift in the stage lengths being flown by the regional/commuter carriers, one year prior to the "one level of safety" initiative (1994), 3,794 city-pairs were being flown. Out of these 3,794 city-pairs, 82 percent of them measured distances less than 300 miles. The year the "commuter rule" was enacted (1997), shorter-haul city-pairs represented only 77 percent of the pairs flown. Six years later, at the end of 2003, only 47 percent of the city-pairs being flown by regionals/commuters are less than 300 miles, a 30 percentage point drop from the number of city-pairs flown during 1997.

RISKS AND UNCERTAINTIES

The air carrier industry is currently undergoing major changes, perhaps unlike any other period during the history of commercial passenger service, including deregulation. As the regional/commuter carriers continue on a path of carrying a larger share of the passengers in the system, it is confronted with old issues as well as new. Maintaining cost structure, operating within the confines of scope clauses, managing airspace and airport congestion, and security, continue to be concerns.

The ability of regional carriers to maintain their cost structure is fundamental for their appeal to the larger air carriers. The goal of network carriers is to gain feed from the regionals while providing seamless service to their customers. Network carriers

TABLE IV-5

CITY PAIR ANALYSIS BY AIRCRAFT CATEGORY*

CALENDAR YEARS 2001 AND 2003

City Pairs** With Non-Stop Service -- by Aircraft Category

Stage Length (Miles)	0-200	200-500	500 plus	Total Pairs
2001				
Regionals/Commuters	1,260	1,374	612	3,246
Large Air Carriers	286	942	2,164	3,392
System	1,340	1,846	2,472	5,658
2003				
Regionals/Commuters	1,100	1,500	1,136	3,736
Large Air Carriers	216	818	2,274	3,308
System	1,130	1,782	2,824	5,736
Difference between 2001 and 2003				
Regionals/Commuters	(160)	126	524	490
Large Air Carriers	(70)	(124)	110	(84)
System	(210)	(64)	352	78

City Pairs Served Exclusively by Regionals/Commuters or Large Air Carriers

Stage Length (Miles)	0-200	200-500	500 plus	Total Pairs
2001				
Regionals/Commuters	1,054	902	308	2,264
Large Air Carriers	80	472	1,860	2,412
Jointly Served	206	470	304	980
2003				
Regionals/Commuters	912	962	548	2,422
Large Air Carriers	30	282	1,688	2,000
Jointly Served	186	536	586	1,308
Difference between 2001 and 2003				
Regionals/Commuters	(142)	60	240	158
Large Air Carriers	(50)	(190)	(172)	(412)
Jointly Served	(20)	66	282	328

Change in City Pairs Served by Commercial Air Carriers Between 2001 and 2003

Stage Length (Miles)	0-200	200-500	500 plus	Total Pairs
City Pairs Gained/Lost (not served by either category since '01)				
Gained-Regional/Commuter City Pairs	152	126	188	466
Gained – Large Air Carrier City Pairs	2	30	314	346
Lost - Regional/Commuter City Pairs	336	184	64	584
Lost – Large Air Carrier City Pairs	38	46	128	212
Net Change in City Pairs				
Gained	154	156	502	812
Lost	374	230	192	796
Net Gain/(Loss)	(220)	(74)	310	16

Source: Official Airline Guide

*Regionals/Commuters: flights operated using aircraft with 70 or less seats.

Large Air Carriers: flights operated using aircraft with more than 70 seats.

**For example, LAX/ORD counts as two city pairs.

provide seamless service through outsourcing and code-sharing. The cost environment that the regionals operate in further advances arrangements that are beneficial to both the regionals/commuters and the network carriers.

Scope clauses define routes and services that mainline airlines may subcontract to the regionals. They can place limits on the size and number of aircraft operated by regional airlines, and/or the number of ASMs flown by a regional carrier. The events of September 11th accelerated the relaxation of these clauses; however, scope still impacts the ability of carriers to match the right-sized aircraft to market demand.

While the terrorist attacks of September 11th, the Iraq War, and SARS have temporarily sidelined the issue of airport congestion, it is expected to reappear as demand returns to pre-September 11, 2001, levels (expected to occur by 2005/2006). As demand returns, some aviation professionals are concerned that the increasing number of regional jets and smaller mainline equipment operating in the U.S. will contribute to airport and airspace congestion. Unlike turboprop aircraft that operate most efficiently at altitudes half that of the regional jets, regional jet aircraft operate most efficiently and economically in airspace shared with the larger jet aircraft. Consequently, the replacement of turboprop aircraft by regional jet aircraft increases congestion in airspace previously used only by large jet aircraft. It is believed that technology and scheduling improvements will help alleviate some part of any congestion that may arise.

Security has impacted all air travelers since September 11th. However, passengers flying in shorter-haul markets are the ones most likely to have altered their travel behavior. As consumer confidence in flying returned after the terrorist attacks, passengers endured long lines at airport security checkpoints. The increased time required to pass through these checkpoints significantly impacted passengers flying in short-haul markets.

Short-haul passengers resorted to other modes of travel and/or alternative methods of conducting business as the perceived cost of air travel became greater than the benefit. Some of the alternatives for short-haul air travel are intercity rail, the automobile, and audio and video conferencing. The Transportation Security Administration (TSA) has been able to standardize and streamline processes for security screening at airports throughout the U.S., alleviating much of the “hassle factor” that initially plagued airports shortly after September 11th.

FORECAST METHODOLOGY

In normal times, regional/commuter demand is modeled using economic assumptions as inputs. However, the impacts of September 11th, the Iraq War, and SARS have expanded the role of the regional/commuter carriers in the national transportation system, thus making economic models misleading, at least in the short-term. Currently models underestimate the amount of traffic being carried by the regional/commuter carriers and fail to capture the anticipated growth in capacity expected to occur during the early years of the forecast period.

The starting point for developing regional/commuter capacity for 2004 was the flight schedules published in the January 2004 OAG. The year-over-year change in the scheduled capacity for the first 10 months of 2004 was assumed to carry through the entire fiscal year. To prepare traffic forecasts, insight gained from discussions held with individual carriers, trade associations, manufacturers, and industry analysts from the Transportation Research Board (TRB) Regional/Commuter Subcommittee meetings were taken under consideration, along with emerging

trends in average trip lengths and load factors. Using this information, forecasts for RPMs and passengers were developed.

These preliminary estimates of supply and demand were compared with actual capacity and traffic data from trade publications and carrier web sites and adjusted as necessary. Although the forecasts for 2004 contain numerous assumptions developed from expert opinion and analyst expertise, it is believed that the forecasts are reasonable in terms of capturing the anticipated course of events.

To combat the failure of economic models to capture the effects of the large number of regional jets projected to enter the fleet, an alternative method for forecasting traffic was pursued. Forecasts for the period beyond 2004 are a blend of economic models, assumptions regarding capacity, and traditional beliefs regarding average passenger trip length.

For the period 2005 through 2015, initial estimates for RPMs were based on an economic model that assigned Gross Domestic Product (GDP) as the independent variable. Load factor assumptions were then used to derive a forecast for capacity. These two forecasts were labeled the “base case”. As expected, based on published information for orders and options of regional jet aircraft, the “base case” model appeared to underestimate the capacity increases expected to occur during the early years of the forecast. Therefore, projected orders and options for regional jet aircraft were used to forecast capacity for the regional/commuter carriers. To complete the forecasts for the 2005-2015 period, conventional assumptions regarding load factor, average trip length and seat size were used to estimate passengers and miles flown.

FORECAST ASSUMPTIONS

In previous years, the regional/commuter database combined carriers reporting traffic using Form 298C with a select group of Form 41 carriers operating both large aircraft over 60 seats and smaller regional/commuter aircraft. As a result, traffic reported by the Form 41 carriers operating both large and small equipment were included in the regional/commuter databases as well as in the large air carrier databases. For clarity, the level of duplicated traffic (enplanements and RPMs) would be presented in the technical notes of the FAA Aviation Forecasts.

The new definition for the regional/commuter industry resulted from revisions to DOT reporting requirements and the delivery of new regional commuter aircraft larger than 60 seats. The revised FAA definition places individual air carriers into one of two categories: regional/commuter *or* large air carrier, with the regionals defined as those carriers flying most of their ASMs using aircraft having 70 seats or less. The division of carriers into specific categories eliminates the duplication of traffic, capacity, and financial statistics between the regional/commuter and the large air carrier databases.

Stemming from the change in reporting requirements, the regional/commuter forecasts discontinued distinguishing those carriers reporting on Form 298C from those reporting on Form 41, starting with the forecasts prepared for 2003. At present, separate capacity and traffic forecasts are prepared based on type of travel--domestic or international. Domestic forecasts include travel between the United States, its territories and Canada. International forecasts are based on travel between the United States and its territories and Mexico and the Caribbean.

The development of the regional/commuter international database required several sources including: DOT Form's 298C (Table 11A), 41, and T100 as well as the Official Airline Guide. Since prior to fiscal year 2003, 298C carriers only reported RPMs and enplanements on Table 11A, the Official Airline Guide was used to backfill history for ASMs, miles flown, seats, and departures for these carriers. Also, of the five Form 41 carriers that offer international service, three do not report domestic traffic separately from international on Form 41. For these carriers, DOT T100 data was used to obtain international traffic counts. This international traffic was subtracted from the system traffic reported by each of the three carriers to arrive at "pure" domestic traffic.

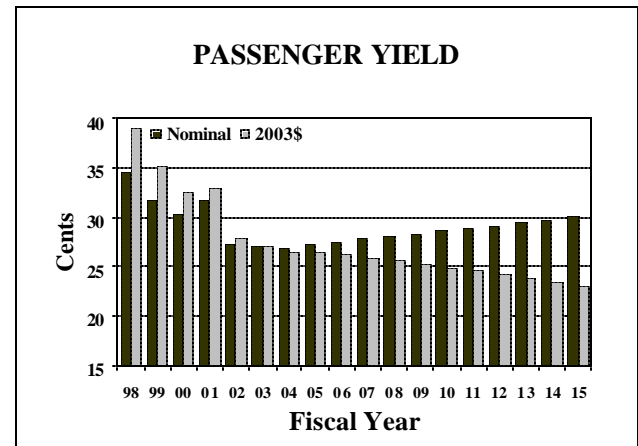
The baseline assumptions for passenger yield, average aircraft seat size, passenger trip length, and load factor are presented in tabular form in Chapter X, Table 28.

PASSENGER YIELD

The nominal passenger yield for the reporting regional/commuter air carriers was 27.11 cents in 2003, down 0.4 percent from 2002. Although yield for the regional/commuter carriers stayed in the 30 cent range prior to September 11th, these carriers still post yields that are more than double that of the larger air carriers (11.32 cents in 2003).

Several factors are responsible for the drop in nominal yield since September 11th. In 2003, the Iraq War and SARS dampened the demand for travel services. Many corporations continued actions implemented after September 11th, including reduction in travel budgets and/or seeking less expensive methods to conduct business. As a result, purchases of higher-fare tickets declined, cutting into revenues made by carriers that were not operating on a contract-flying basis. Also,

contributing to the reduction in yields is the increased utilization of regional jets. The regional jets operate at higher load factors and longer passenger trip lengths, both contributing factors to stable or declining yields.

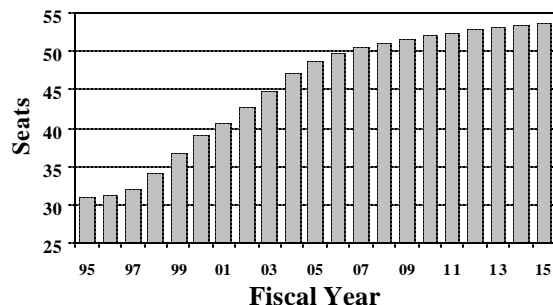


The nominal yield is expected to decline 0.4 percent in 2004, then increase by 1.0 percent in both 2005 and 2006. For the remaining years of the forecast, nominal yield will rise at an average annual rate of 1.0 percent to 30.12 cents in 2015. The real yield is projected to decline by 1.9 percent in 2004, 0.4 percent in 2005, and 0.7 percent in 2006. For the remaining years of the forecast, the real yield is projected to decline at an average annual rate of 1.4 percent, falling to 23.17 cents in 2015.

AVERAGE AIRCRAFT SIZE

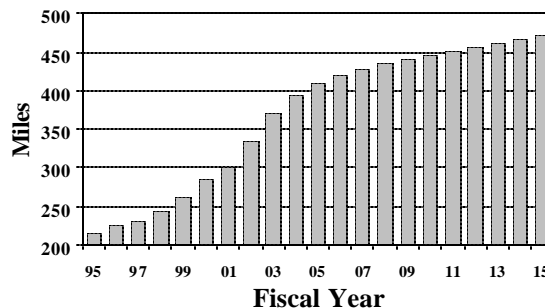
The most significant change in fleet composition will result from the integration of large numbers of regional jet aircraft into the fleet, most of which occurs in the 50- to 70-seat category. These aircraft have already increased public acceptance of regional airline service, and offer the greatest potential for replacement service on selected jet routes.

U.S. REGIONAL/COMMUTER AVERAGE AIRCRAFT SIZE



The regional/commuter aircraft fleet is expected to continue to grow rapidly during the first several years of the forecast period. Average seats per aircraft is expected to increase by 2.4 seats in 2004, 1.6 seats in 2005, and 1.1 seats in 2006. For the period 2007-2012, seats per aircraft are projected to increase at an average rate of 0.5 seats annually, to 53.6 seats in 2015. Most of the growth in seat size is expected to come from those carriers operating the larger regional jets.

U.S. REGIONAL/COMMUTER TRIP LENGTH



The domestic trip length is forecast to increase 25 miles between 2004 and 2006, and then increase an additional 50 miles over the remainder of the forecast period, reaching 472.4 miles in 2015. The international trip length is expected to increase 34.2 miles during the first 3 years of the forecast, and then an additional 5 miles per year thereafter, going from 310.8 miles in 2003 to 390 miles in 2015.

PASSENGER TRIP LENGTH

The impact of the regional jet is reflected in the growth in the average passenger trip length. The introduction of regional jets in large numbers beginning in 1997 coincides with the significantly higher growth in the average passenger trip length.

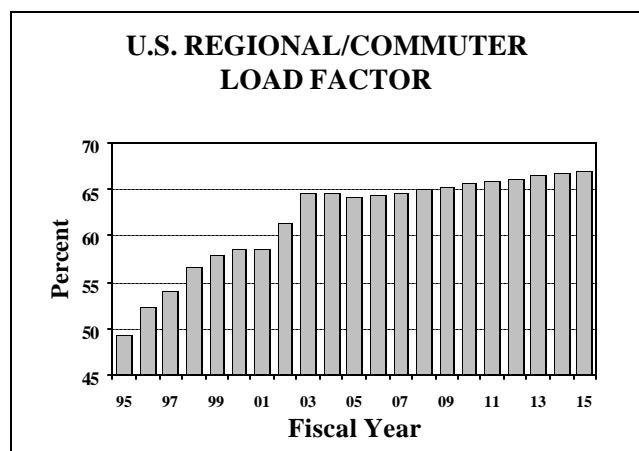
Over the next 3 years of the forecast, the average trip length is expected to increase almost 50 miles (25.1 miles in 2004, 14.8 miles in 2005, and 9.9 miles in 2006) then slow to an increase of 6.0 miles annually over the remainder of the forecast period. Over the 12-year forecast period the average trip length is projected to increase from 370.2 miles in 2003 to 470.2 miles in 2015.

PASSENGER LOAD FACTOR

The average industry load factor is projected to remain steady at 64.7 percent during the first year of the forecast, decline slightly in 2005, and then increase gradually to 64.5 percent in 2006. For the remainder of the period, the load factor increases at a rate of 0.3 points per year, for a load factor of 67.1 in 2015. Load factors in 2004 and 2005 reflect the large increases in capacity due to 549 regional jet aircraft entering the fleet in those years. Increases in load factors over the latter years of the forecast period are due to regional jet aircraft deliveries tapering between 2007 and 2015. It is also assumed the regional/commuter industry will continue to emphasize frequency of service and this should keep regional/commuter load factors from reaching the level of the network carriers.

The load factor for domestic travel is forecast to decrease from 64.9 percent in 2003 to

64.6 percent in 2006, and then grow at a rate of 0.3 points per year for the remainder of the forecast period--to 67.1 percent in 2015. The international load factor is forecast to grow 1.7 points between 2003 and 2006, from 59.3 percent to 61.0 percent. For the remaining 9 years, the load factor increases 0.5 points annually, for a load factor of 65.5 percent in 2015.



REGIONALS/COMMUTERS FORECASTS

The increasing number of aircraft, especially regional jets with ranges beyond 1,000 miles, is creating new opportunities for growth in nontraditional regional/commuter markets. However, the primary role of the regional industry will remain that of feeding traffic to the legacy and low-cost carriers, even as they expand into new markets with longer route segments.

For the large air carriers, use of their regional partners is an effective way to maintain a market presence when forced to reduce excess capacity in selected markets. Regional partners can backfill with regional jets and provide service in comparable comfort and speed at a lower cost. The events of September 11th heightened the need for the larger commercial air carriers to reduce overall costs and

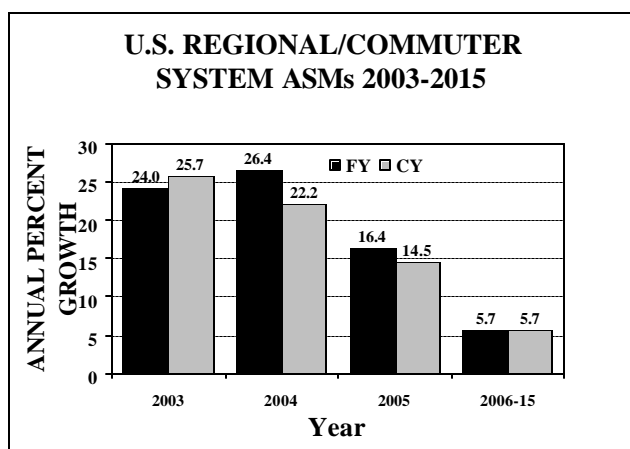
capacity and resulted in the transfer of a large number of markets and routes to their regional partners. This expansion of nontraditional regional/commuter markets is expected to be one of the major drivers of growth during the early years of the forecast.

While the transfer of selected routes is expected to accelerate during the early years of the forecast period, this phenomenon should diminish considerably during the mid to latter years. Consequently, the rate of growth in traffic will be lower than that experienced in the past.

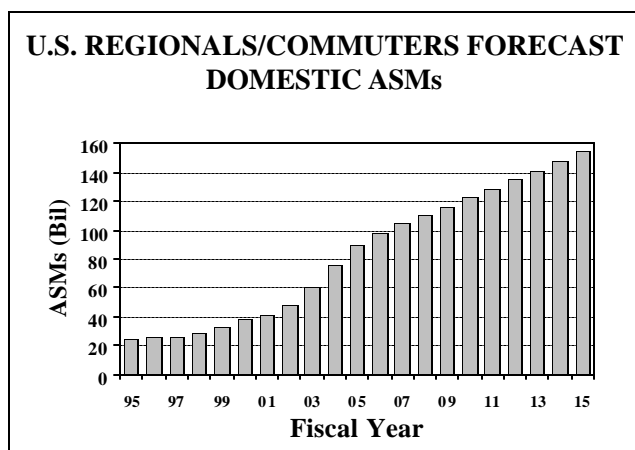
Regional/commuter forecasts of enplanements, ASMs, RPMs, fleet, and hours flown are presented in tabular form in Chapter X, Tables 26 through 30.

AVAILABLE SEAT MILES

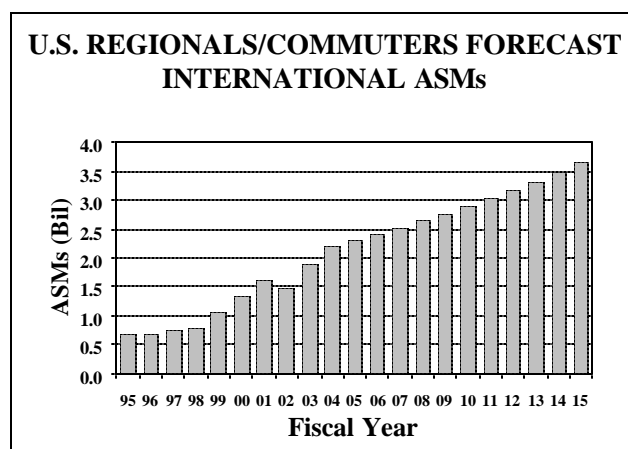
In 2004, the year-over-year percentage change in system ASMs is expected to be 26.4 percent, for a total of 78.6 billion. Again, this rate primarily reflects routes being transferred by the network carriers along with the delivery of large numbers of regional jet aircraft in the 50-70 seat range. System ASMs are forecast to increase 16.4 percent in 2005 and 9.5 percent in 2006, reaching a total of 100.2 billion in the latter year. From 2007 through 2015 regional ASMs will increase at an average rate of 5.2 percent for a total of 158.6 billion in 2015. Over the 12-year forecast period, ASMs are forecast to increase at an average annual rate of 8.1 percent.



Domestic ASMs are forecast to increase 62.1 percent during the first 3 years of the forecast and total 97.8 billion in 2006. For the period 2007-2015, period, ASMs are expected to increase at an annual rate of 5.3 percent, totaling 155.0 billion in 2015.

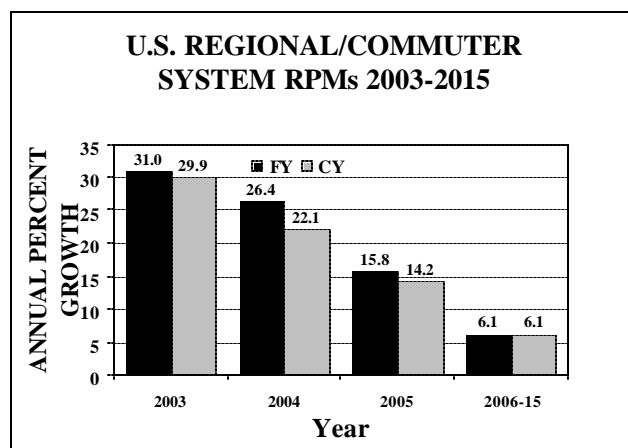


International ASMs are projected to increase 28.1 percent for the first 3 years of the period, for a total of 2.4 billion ASMs in 2006. During the final 9 years of the forecast period, these carriers' ASMs are expected to grow at an average annual rate of 4.7 percent and total 3.7 billion in 2015.



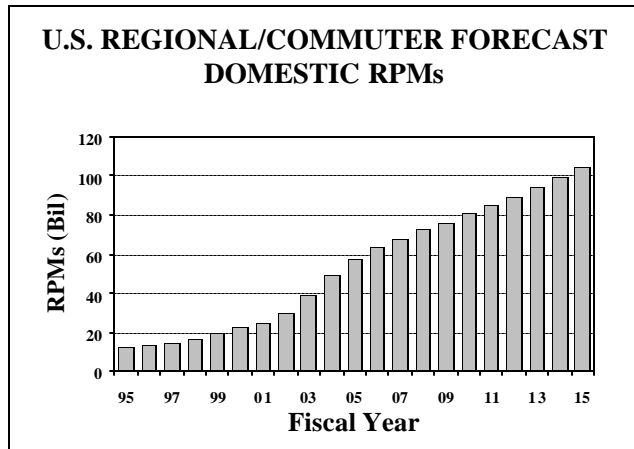
REVENUE PASSENGER MILES

Regional/commuter RPMs are expected to increase 26.4 percent in 2004 (to 50.9 billion), 15.8 percent in 2005 (to 58.9 billion), and 9.8 percent in 2006 (to 64.7 billion). The high growth rates reflect the longer stage lengths being flown by the large numbers of regional jets entering the fleet during these years. From 2007 through 2015 regional RPMs will increase at an average annual rate of 5.7 percent. Over the 12-year forecast period, the average annual rate of growth in RPMs is 8.4 percent for a total of 106.4 billion in 2015.

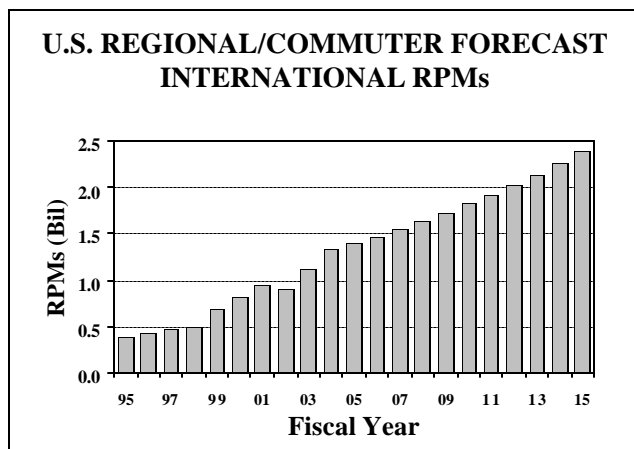


Domestic passenger miles are forecast to be 63.2 billion in 2006, a 63.2 percent increase from 2003 levels. Over the latter years of the forecast (2007 through 2015), the average annual growth rate is projected to be 5.7 percent. The average

annual increase in RPMs for the 12-year forecast period is 6.1 percent, totaling 104.0 billion 2015.



International passenger miles are projected to increase 31.8 percent between 2003 and 2006--to 1.5 billion. During the final 9 years of the forecast period, international RPMs are expected to grow at an average annual rate of 5.5 percent for a total 2.4 billion in 2015.

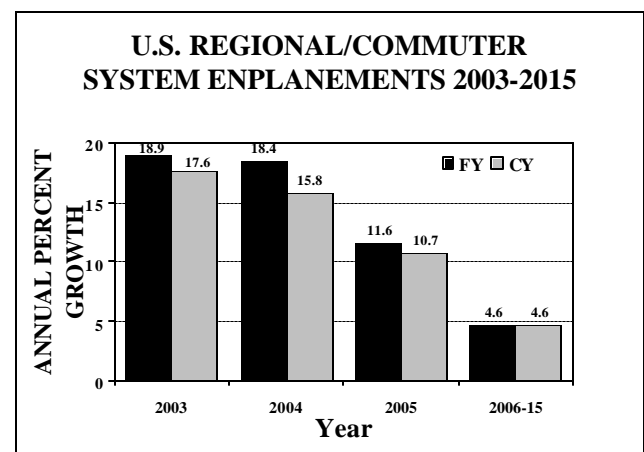


REVENUE PASSENGER ENPLANEMENTS

Regional/commuter passenger enplanements are projected to increase by 18.4 percent in 2004 (to 128.7 million), 11.6 percent in 2005 (to 143.6 million), and 7.2 percent in 2006 (to 153.9 million). Between 2007 and 2015

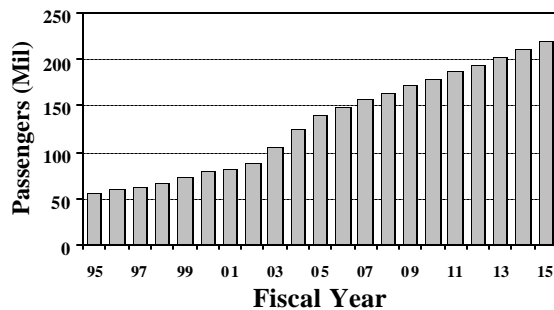
enplanements will grow at an average rate of 4.4 percent annually for a total of 226.2 million in 2015. Over the entire 12-year forecast period, system enplanements are forecast to grow 6.3 percent annually. By 2015, regional/commuter carriers are expected to account for 21.4 percent of all commercial air carrier enplanements.

Enplanements are expected to increase at a slower rate than RPMs over the forecast period due to the fact that the average passenger trip increases at an average rate of 8.3 miles per year over the 12-year forecast period.



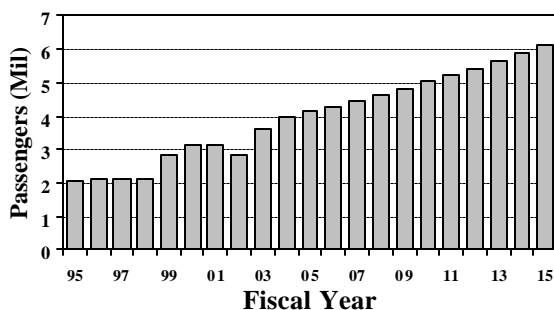
Domestic enplanements are projected to increase 42.4 percent during the first 3 years of the forecast, totaling 149.7 million passengers at the end of this period. Between 2007 and 2015, domestic enplanements will increase at an average annual rate of 4.4 percent. Over the entire 12-year forecast period, enplanements are forecast to increase at an average of 6.4 percent annually, totaling 220.0 million in 2015—23.0 percent of all domestic enplanements.

U.S. REGIONAL/COMMUTER DOMESTIC ENPLANEMENTS



International enplanements are projected to increase 18.7 percent by 2006 (to 4.3 million). For the period 2007-2015, international enplanements are projected to increase at an average annual rate of 4.1 percent, totaling 6.1 million in 2015.

U.S. REGIONAL/COMMUTER INTERNATIONAL ENPLANEMENTS



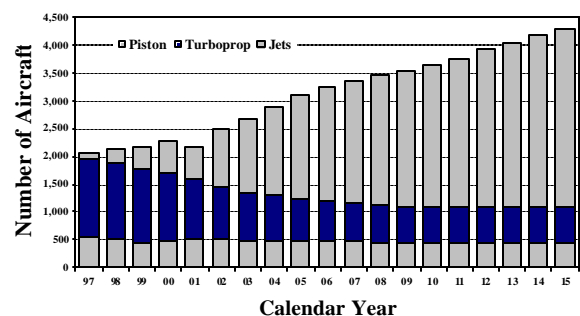
REGIONALS/COMMUTERS PASSENGER FLEET

The regional/commuter fleet, once composed primarily of piston and turboprop aircraft, is rapidly moving toward a fleet predominantly made up of regional jet aircraft. Before September 11th, regional/commuter carriers deployed regional jet aircraft for the purpose of entering new markets and for supplementing and/or replacing turboprop routes. Post September 11th, the

regional/commuter carriers are deploying assets on routes traditionally served by mainline carriers in response to the restructuring and downsizing taking place among the larger regional partners. As regional/commuter carriers began flying more long-haul routes using jet aircraft, many of the shorter-haul routes conventionally flown by turboprop aircraft were discontinued.

Over the 12-year forecast period, the regional/commuter passenger fleet is projected to net an average annual increase of 136 aircraft, going from 2,672 aircraft in 2003 to 4,303 aircraft in 2015. During the same period, the overall fleet of turboprop aircraft will decrease by 240 aircraft. For the first 3 years of the forecast 5.4 regional jet aircraft will enter the fleet for every turboprop aircraft retired.

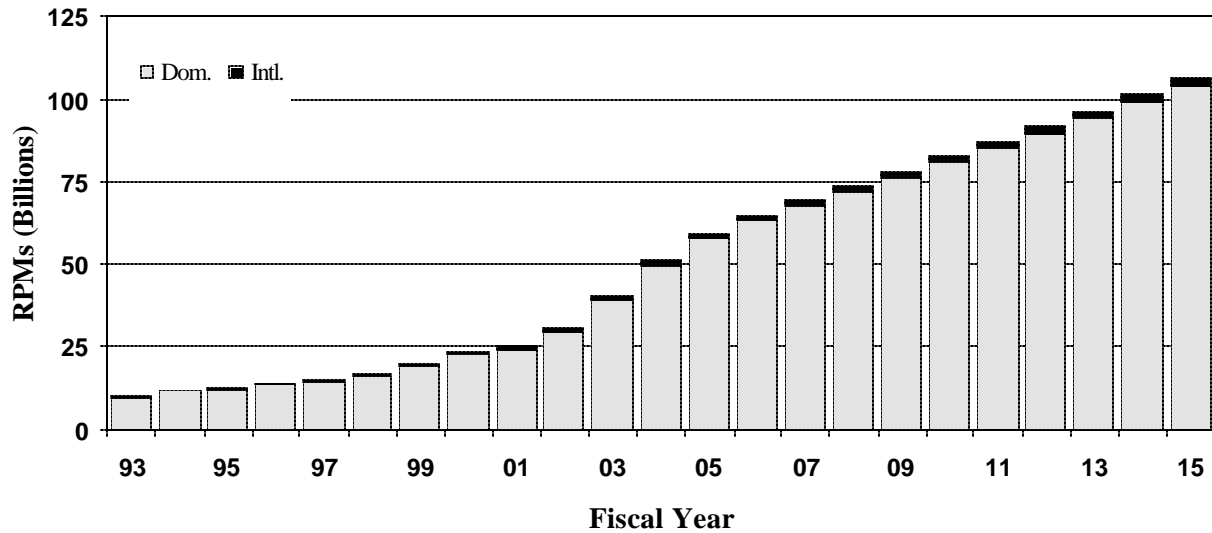
U.S. REGIONALS/COMMUTERS FLEET BY AIRCRAFT TYPE



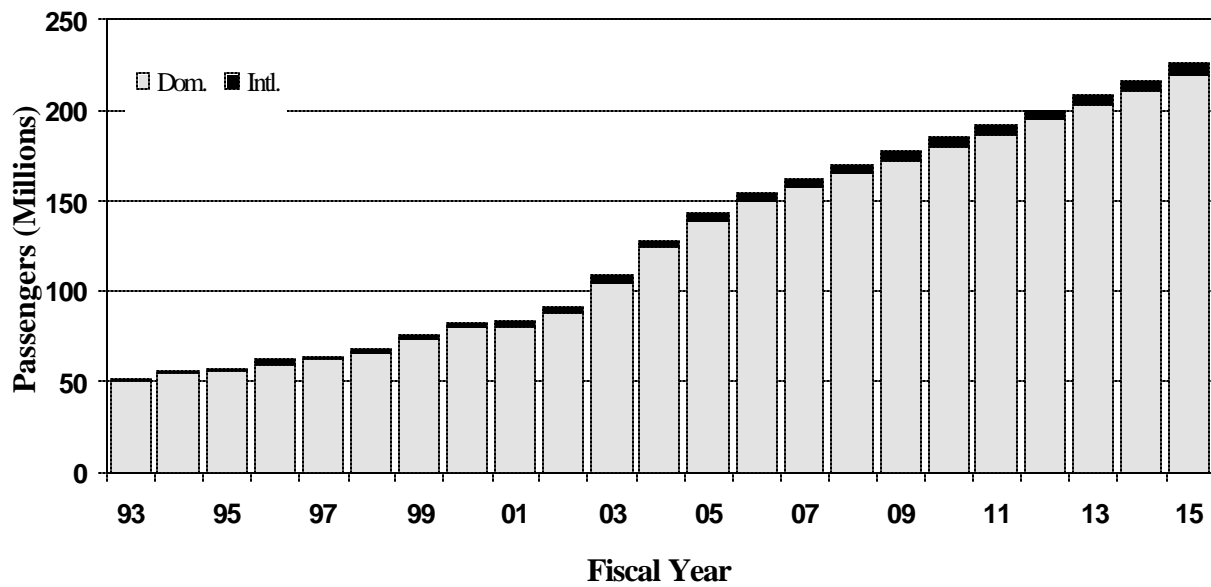
Most of the aircraft in the “less than 10 seats” category are operated by Alaskan regional carriers. Regional aircraft in this category once made up the bulk of the fleet--60.9 percent in 1980. In 2003, this category totaled 485 aircraft and accounted for only 18.2 percent of the total regional fleet. Between 2004 and 2015, the number of aircraft in this category is expected to drop to 455 aircraft and account for only 10.6 percent of the fleet in the final year of the forecast. It is assumed that the decline in this category will occur almost entirely among regional airlines operating within the 48 contiguous states.

U.S. REGIONALS/COMMUTERS TRAFFIC FORECASTS

Scheduled Revenue Passenger Miles



Scheduled Passenger Enplanements



In 2003, the turboprop aircraft in the 10-40 seat range totaled 749 and accounted for 28.0 percent of the fleet. By 2015, these aircraft are expected to represent 12.3 percent of the fleet and total 530 aircraft. The average net decrease in the fleet is 18 aircraft per year. At present, many of the short-haul markets serviced by the turboprop aircraft have disappeared due, in part, to the increased processing times required for ticketing and clearing security checkpoints. It is anticipated that as demand returns, these routes will once again be economically viable for the regionals/commuters to operate on.

The fleet of turboprop aircraft in the over 40 seats category totaled 117 in 2003. Over the 12-year forecast period, this portion of the fleet is expected to decrease by 21 aircraft and total 96 aircraft in 2015. It is anticipated that some of the regional/commuter carriers will retire many of their ATR aircraft during the early years of the forecast. There are also expected to be deliveries of the Bombardier Q400 during this period as well. It is believed that scope clause limitations on regional jets will result in many of the larger turboprops remaining in the fleet. In 2003, turboprop aircraft in the over 40-seat category were 4.4 percent of the fleet. In 2015, these aircraft are forecast to be only 2.2 percent of the fleet

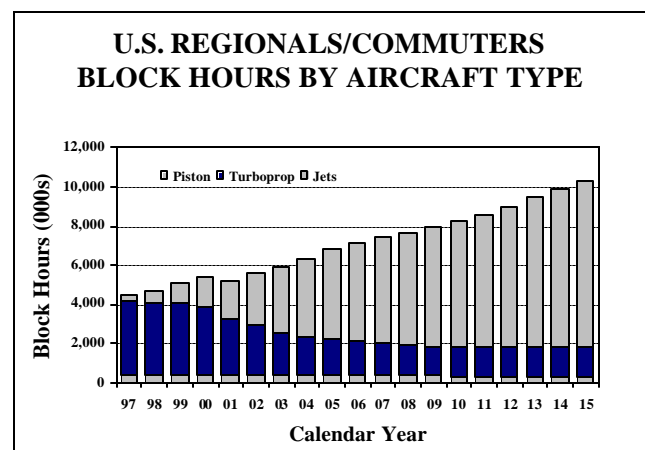
No increase is expected in the 30-40 seat regional jet category over the forecast period. It is anticipated that regional/commuter carriers will opt for the larger regional jet aircraft. In 2003, this category of aircraft made up 4.8 percent of the fleet. By the end of the forecast period, regional jet aircraft in this seat category will account for only 3.0 percent of the fleet.

The majority of the increase in the regional/commuter fleet will be from regional jet aircraft in the over 40 seats category. In 2003, there were 1,192 aircraft that made up 44.6 percent of the fleet. By 2015, it is expected that there will be an additional 1,901 of these

aircraft in the fleet, for an average annual increase of 158 aircraft per year. Of the 1,901 aircraft that are forecast to enter the fleet over the 12-year period, 60.4 percent are expected to be delivered by the end of 2009. At the end of the forecast period, this category of aircraft are expected to account for 71.9 percent of the total regional/commuter fleet.

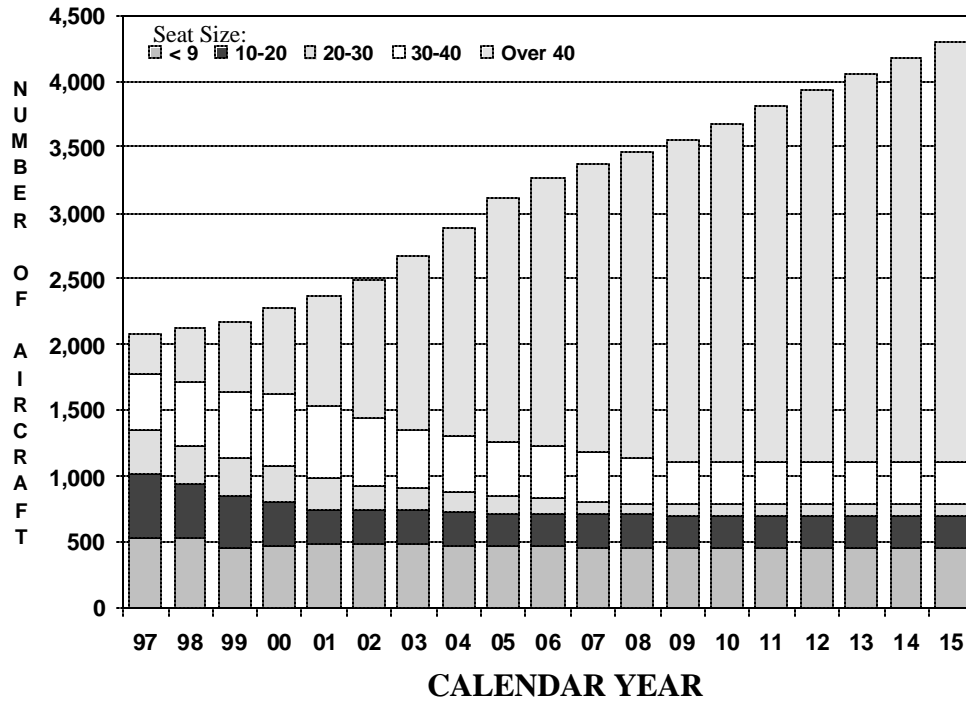
BLOCK HOURS

Regional/commuter block hours for 2003 are estimated at 5.9 million, an increase of 5.6 percent over 2002. During the forecast period, hours are expected to increase to 6.4 million in 2004 (up 8.2 percent), 6.9 million in 2005 (up 8.1 percent), and 7.2 million (up 4.7 percent) in 2005. During the 12-year forecast period, flight hours are forecast to increase at an average annual rate of 4.7 percent, totaling 10.2 million hours in 2015.

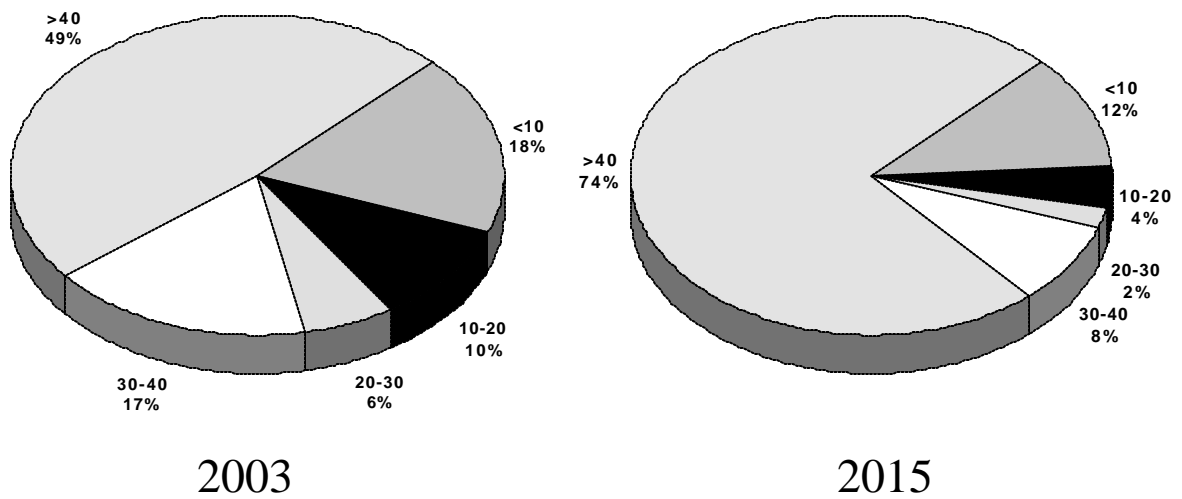


Block hours flown by piston aircraft are forecast to decline from 0.36 million hours in 2003 to 0.32 million hours in 2015, for an average decrease of 1.0 percent annually. In 2015, piston aircraft are forecast to account for 3.2 percent of the block hours flown by the regionals/commuters, down from 6.2 percent in 2003.

U.S. REGIONALS/COMMUTERS PASSENGER AIRCRAFT



PERCENT OF FLEET BY SEAT SIZE



Block hours flown by turboprop aircraft totaled just under 2.2 million in 2003. Hours for this category of aircraft are expected to total 1.5 million in 2015, for an average annual decrease of 3.3 percent per year. The decline in hours during the early part of the forecast period is due to the retirement of turboprop aircraft. In 2003, turboprop aircraft accounted for 37.4 percent of all hours flown by the industry. By 2015, total hours flown by turboprop aircraft is forecast to drop to 14.4 percent.

Block hours for regional jet commuter aircraft totaled 3.3 million in 2003 and were 56.3 percent of the hours flown. By 2015, block hours flown by this category of aircraft are forecast to total 8.4 million and account for 82.4 percent of the hours flown. Regional jet aircraft block hours are expected to increase at an average annual rate of 8.1 percent, but grow at a faster pace during the early years of the forecast due to the larger number of aircraft entering the fleet during this period.